

**Committee on Government
Reform and Oversight**

**Subcommittee on Government Management,
Information and Technology**

U.S. House of Representatives



**Results of the Chief Financial Officers Audit
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Chairman Horn and members of the Subcommittee, thank you for the opportunity to appear here today to discuss the recent audit of the Social Security Administration's (SSA) financial statements.

The Chief Financial Officers Act of 1990 requires that the Inspector General (IG) or an independent auditor named by the IG audit SSA's financial statements. This annual review serves three purposes: (1) it contributes to increased public confidence in Social Security by attesting to the accountability of its resources, (2) it identifies significant problems in SSA's control systems and recommends corrective actions, and (3) it aids congressional oversight by showing areas where Congress can work with SSA to improve the Social Security system.

Although this is the 11th year SSA has been producing audited financial statements, it was the first year an Independent Public Accounting (IPA) firm was hired to conduct the audit. The Office of the Inspector General contracted with the IPA firm Price Waterhouse to conduct the audit. The IPA conducted the audit efficiently, effectively, and in a short time frame. I believe the IPA was able to conduct this audit so efficiently because of three factors: (1) SSA's accounting function and management systems are centralized; (2) there was a beneficial knowledge base from the previous years' financial audits; and (3) the IPA had a demonstrated expertise in the areas covered by the audit.

SSA's accounting and financial management functions are centralized, and the primary source of SSA's accounting data is internal. SSA's National Computer Center serves as its central data processing center by controlling all of the application systems that are used by facilities nationwide. This centralized structure combined with an internal source of accounting data provides for an efficient use of audit resources because it allows auditors to focus on one location.

The IPA assigned 90 auditors whose expertise was in financial and systems auditing to conduct this audit. Because SSA's centralized accounting function has not changed significantly over the last 9 years, the auditors were able to rely on previous assessments to identify high-risk areas and plan sufficient audit coverage to review those areas.

The IPA gave SSA's financial statements an unqualified opinion. An unqualified opinion represents an assurance that the financial statements and related accounting systems are free from material error and generally comply with significant laws and regulations. The IPA also found five significant deficiencies in SSA's general controls environment. These deficiencies undermine the overall integrity of elements of the data processed through SSA's automated systems. Specifically, the IPA found that SSA needs to

- improve controls to protect its information,
- improve and fully test its plan for maintaining continuity of operations,
- improve its software application development and change control policies and procedures,
- improve controls over insufficient separation of duties, and
- improve quality control activities.

The IPA cited concerns or instances of noncompliance with the Federal Financial Management Improvement Act and recommended that the first four of these deficiencies be reported as material weaknesses under the Federal Managers' Financial Integrity Act of 1982.

Citing the limited details in the first report, SSA stated that it was unable to fully respond to these deficiencies. After receiving the two subsequent Management Letters, SSA was better informed of the basis of these problems and agreed to take action on most of the IPA's recommendations. In keeping with SSA's goal of rebuilding public confidence, the Commissioner made resolving the IPA's findings a top priority.

Another of the Agency's priorities is the implementation of the Government Performance and Results Act, which contains a requirement to improve the confidence of the American people by holding Federal agencies accountable for achieving program results. In fulfilling this priority, SSA faces several challenges.

SSA must develop new ways of measuring the financial cost of its programs, which is an integral part of measuring performance. Accurately measuring the true cost of its operations is a significant challenge to SSA because of standing concerns with its existing cost accounting system and the increased expectations contained in the new cost accounting standards that were recently issued by the Joint Financial Management Improvement Program. By implementing managerial cost accounting standards, SSA can provide adequate, timely information on the full cost of its programs.

In conclusion, I believe this audit was successful on two fronts. First, it revealed specific areas where SSA needs to strengthen its financial management, and second, it gave SSA, Congress, and the public a better awareness of the adequacy of SSA's stewardship. I believe the successes in this audit will contribute to improving the oversight and operations of SSA.